STATE REPRESENTATIVE
JOHN KLENKE
88TH ASSEMBLY DISTRICT

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REP.KLENKE@LEGIS.WI.GOV

TO: Assembly Committee on Energy and Utilities
From; Representative John L Klenke, 88th District
Re: Support for Assembly Bill 145
Date: May 25, 2011

Good morning Chairman Honadel and members of the Committee on Energy and Utilities. Thank you for the chance to voice my support for Assembly Bill 145. This bill authorizes the Public Service Commission to approve temporary electric rates to promote economic development.

Recently, Wisconsin's energy rates have been on the rise. According to the U.S. Energy Information Administration (EIA), our energy rates are some of the highest in the Midwest (See table attached from the EIA). While some rate increases have come as a result of the increased investment in new infrastructure, decreases in demand and declining electric sales have been a major contributor as well.

The bill provides, via an "economic development rate" (EDR) another tool for state and local officials seeking to attract businesses interested in locating and expanding in Wisconsin or those that are considering leaving Wisconsin. Of course, any discounted rate must be approved by the Public Service Commission.

We all support businesses that chose to move into Wisconsin. I believe there is also overwhelming support for businesses seeking to expand in Wisconsin. The legislation establishes significant hurdles that expanding business must meet to be certain a rate would not be provided for normal fluctuations within the normal business cycle.

The most contentious issue relates to businesses retention. It is important that we not only encourage new business growth, but also work to retain existing customers when they are on the verge of leaving the state. If there is a large decline in energy consumption, such that would happen if a manufacturer moved from the state, utilities can seek to recover costs from other customers, resulting in rate increases for everyone.

Several safeguards are built into the legislation in order to prevent abuse by a customer "crying wolf." First, businesses must present an affidavit indicating that without the EDR they would be forced to relocate operations. Secondly, before qualifying for an EDR they must secure from another source, $500,000

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of other assistance. Finally, as a practical matter, the petitioners request will become public. A CEO and Board of Directors risks customer loyalty, valued employees seeking alternative employment and vendors changing payment terms if their confidence in the company's future is at risk.

In closing, I'd like to recognize that some believe that the Public Service Commission (PSC) has the authority to approve an EDR today. Unfortunately, this authority is not in the statute and has created some confusion. In 2009, Wisconsin Power and Light received approval from the PSC to grant an economic development rate but it was contested. Accordingly, it has yet to go into effect. AB 145 will provide statutory authority while eliminating any confusion regarding the PSC's authority to approve economic development rates in Wisconsin.

Again, Chairman Honadel and members of the committee, thank you for the opportunity to testify in favor of Assembly Bill 145.

Table 5.6.B. Average Retail Price of Electricity to Ultimate Customers by End-Use Sector, by State, Year-to-Date

(Cents per Kilowatthour)

Census Division and State	Residential		Commercial[1]		Industrial[1]		All Sectors	
	2011	2010	2011	2010	2011	2010	2011	2010
New England	**16**	**16.42**	**14.48**	**14.77**	**12.75**	**13.04**	**14.74**	**15.08**
Connecticut	17.84	19.11	15.92	16.6	13.76	14.94	16.58	17.58
Maine	15.81	15.51	12.94	12.95	9.67	10.26	13.36	13.38
Massachusetts	14.71	15.27	14.14	14.45	13.38	13.48	14.1	14.45
New Hampshire	16.34	15.65	14.35	13.98	12.72	12.7	14.98	14.51
Rhode Island	16.28	15.71	13.09	13.45	11.69	12.43	14.29	14.27
Vermont	15.87	15.02	13.76	13.1	10.06	9.53	13.75	13.02
Middle Atlantic	**15.12**	**14.67**	**13.31**	**13.33**	**8.86**	**8.3**	**13.22**	**13.01**
New Jersey	16.39	15.85	13.36	13.64	11.95	10.78	14.39	14.2
New York	17.42	17.45	15.41	15.22	9.41	9.22	15.62	15.48
Pennsylvania	12.67	11.95	9.79	10.06	8.25	7.56	10.52	10.18
East North Central	**10.82**	**10.34**	**9.21**	**9.06**	**6.41**	**6.37**	**8.92**	**8.69**
Illinois	10.78	10.22	8.32	8.51	6.28	6.73	8.6	8.6
Indiana	9.42	8.62	8.67	8.08	6.22	5.74	7.95	7.36
Michigan	12.3	11.46	9.87	9.5	7.22	7.01	10.03	9.49
Ohio	10.27	10.37	9.48	9.58	5.95	6.19	8.69	8.85
Wisconsin	12.48	11.94	10.14	9.62	7.1	6.52	10	9.47
West North Central	**8.9**	**8.16**	**7.51**	**6.97**	**5.72**	**5.37**	**7.61**	**7.06**
Iowa	9.53	8.76	7.36	6.84	5.07	4.71	7.27	6.75
Kansas	9.53	8.89	8.1	7.61	6.37	5.78	8.2	7.65
Minnesota	10.3	9.55	8.11	7.76	6.21	6.25	8.34	8.01
Missouri	8.23	7.28	7.04	6.22	5.36	4.78	7.32	6.49
Nebraska	7.86	7.52	7.39	7.05	5.55	5.18	7.01	6.68
North Dakota	7.1	6.92	6.73	6.5	5.88	5.55	6.65	6.43
South Dakota	8.26	7.85	7.34	6.99	6.16	5.66	7.57	7.17
South Atlantic	**10.73**	**10.33**	**9.42**	**9**	**6.57**	**6.51**	**9.61**	**9.31**
Delaware	13.03	12.81	11.03	11.44	9.81	9.42	11.73	11.66
District of Columbia	13.46	13.26	13.36	13.38	7.88	8.76	13.22	13.2
Florida	11.62	10.43	10.04	8.81	8.95	8.23	10.81	9.67
Georgia	9.95	9.28	9.66	9.06	6.33	6.16	9.08	8.58
Maryland	13.49	14.18	11.69	11.74	9.17	9.88	12.39	12.8
North Carolina	9.75	9.78	7.9	8.01	5.8	5.79	8.5	8.59
South Carolina	10.79	10.23	9.22	8.9	5.67	5.59	8.8	8.53
Virginia	9.73	10.13	7.56	7.78	6.53	6.94	8.48	8.87
West Virginia	8.79	8.26	7.75	7.35	5.89	5.74	7.65	7.31
East South Central	**9.64**	**8.73**	**9.62**	**8.84**	**5.91**	**5.37**	**8.35**	**7.63**
Alabama	10.63	10.01	10.38	9.97	5.94	5.45	8.91	8.51
Kentucky	8.69	7.9	8.18	7.51	5.13	4.81	6.96	6.42
Mississippi	9.83	9.09	9.64	9.16	6.41	5.94	8.7	8.17
Tennessee	9.46	8.19	9.99	8.75	6.88	5.92	8.95	7.78
West South Central	**9.89**	**10.17**	**8.53**	**8.87**	**5.73**	**6.06**	**8.32**	**8.69**
Arkansas	7.85	8.47	6.88	7.61	5.07	5.61	6.72	7.38
Louisiana	8.14	8.3	8.18	8.39	5.15	5.95	7.16	7.6
Oklahoma	8.18	7.78	7.12	6.8	5.09	4.57	7.07	6.69
Texas	10.95	11.32	8.98	9.4	6.14	6.43	9.06	9.47
Mountain	**9.69**	**9.63**	**8.27**	**8.13**	**5.53**	**5.66**	**8.01**	**7.99**

Arizona	9.88	9.7	8.7	8.51	5.98	6.08	8.74	8.62
Colorado	10.45	10.42	8.61	8.32	6.49	6.43	8.73	8.63
Idaho	7.81	7.72	6.49	6.62	4.55	4.69	6.55	6.55
Montana	9.2	8.52	8.9	8.11	5.37	5.62	8.08	7.59
Nevada	11.71	12.47	9.33	10.12	5.62	6.44	8.57	9.39
New Mexico	9.96	9.77	8.44	8.19	5.69	5.92	8.18	8.11
Utah	8.25	8.14	6.72	6.55	4.59	4.4	6.55	6.41
Wyoming	8.41	8.13	7.42	7.24	5.1	4.93	6.35	6.15
Pacific Contiguous	**12.04**	**11.95**	**11.05**	**10.62**	**8.16**	**7.21**	**10.87**	**10.49**
California	15.08	15.2	12.6	12.07	9.74	9.67	13.01	12.83
Oregon	9.28	8.47	8.15	7.47	5.49	5.49	8.13	7.51
Washington	8.03	7.64	7.48	7.21	6.83	4.14	7.57	6.64
Pacific Noncontiguous	**24.03**	**21.95**	**21.65**	**19.34**	**21.82**	**19.03**	**22.49**	**20.12**
Alaska	16.68	16.05	14.74	13.48	15.37	14.22	15.58	14.57
Hawaii	30.54	27.05	28.22	25.02	24.29	20.89	27.51	24.15
U.S. Total	**11.09**	**10.74**	**9.99**	**9.77**	**6.72**	**6.54**	**9.66**	**9.43**

[1] See Technical notes for additional information on the Commercial, Industrial, and Transportation sectors.

Notes: • See Glossary for definitions. • Values for 2010 and 2011 are preliminary estimates based on a cutoff

Source: U.S. Energy Information Administration, Form EIA-826, "Monthly Electric Sales and Revenue Report

WISCONSIN INDUSTRIAL ENERGY GROUP

10 E. DOTY STREET | SUITE 800 | MADISON, WI 53703 | PH: 608 441 5740 | FAX: 608 441 5741 | WIEG.ORG

To: Assembly Committee on Energy and Utilities
From: Todd Stuart, Executive Director
Wisconsin Industrial Energy Group, Inc.
Re: Support for Assembly Bill 145
Date: May 25, 2011

Thank you, Mr. Chairman and members of the Committee, for the opportunity to present comments on this important subject. Assembly Bill 145 deals authorizing the Public Service Commission to approve temporary electric rates to promote economic development. The Wisconsin Industrial Energy Group, Inc. appreciates the efforts of Rep. Klenke and offers these comments on behalf of its members in support of AB 145.

WIEG is a non-profit association of 30 of Wisconsin's largest energy consumers. The group has long advocated for policies that support affordable and reliable energy. Since the early 1970s, WIEG has been the premier voice of Wisconsin ratepayers and an engine for business retention and expansion. Each year its members collectively spend more than $200 million on electricity in Wisconsin. Together they employ, with well-paying jobs, more than 50,000 Wisconsin residents who are themselves state taxpayers and utility customers. WIEG members represent most major Wisconsin manufacturing industries including paper, food processing, metal casting and fabricating.

Historically, Wisconsin has been a state with low-cost energy. Rates have been growing, recently, in part due to needed investments in new generating and transmission infrastructure. Significant rate increases have also come from the recession and declining electric sales. In other words, as large customers produce fewer goods and use less electricity, the PSC has approved higher rates from all customers to cover the fixed costs of the utilities.

According to a recent Wisconsin Taxpayers Alliance analysis, "electric rates here are now 20th highest nationally" and "[f]rom 2000 through 2009, average retail electricity prices in Wisconsin rose faster than prices in all but five states." Rates in Wisconsin have gone from relatively low to relatively high.

High rates matter and can hinder economic development. As the Wisconsin Taxpayers Alliance analysis pointed out, "[c]orporate executives are often asked what factors most affect location decisions. While labor costs, tax climate, and workforce skills consistently rank near the top, energy also affects where businesses locate. According to the annual *Area Development Corporate Survey*, energy availability and costs were the fourth most influential factors in locating a business in 2009."

WIEG has historically been supportive of well-designed economic development rate (EDR) programs as members have experience with them in many other states. We have also been hit hard by rate increases from declining electric sales. If offered in a limited, targeted manner and combined with other state & local economic development programs, the goal is to increase our competitiveness and provide net benefits to all Wisconsin ratepayers.

Many other regulated states across the country offer similar programs as part of their economic development "tool kit." Other Midwestern states allow some version of EDR including Iowa, Indiana, Michigan and Missouri. Iowa's version has much more wide open language and they have approved on average two per year for the last twelve years. Southern states and the TVA offer versions of EDRs and special pilots or unique tariffs.

Several utilities in Wisconsin have versions of these tariffs either currently in place or under development. WIEG supported many of the proposals or participated in negotiating the terms at the PSC. We see the need to address some of the regulatory barriers, particularly the length of time for approval/disapproval. For example, Alliant's EDR was submitted in November of 2009. It was approved in 2010, but immediately taken to court by CUB. Even though it survived a court challenge, the PSC has yet to approve Mercury Marine's application for an EDR. An up or down decision should not take this long. AB 145 would therefore provide legal clarity, regulatory certainty and a more streamlined implementation of the EDR programs as it would require a decision on an application within 90 days.

There are a number of provisions in AB 145 that strike a balance of creating a useful economic development tool while providing net benefits and important protections for all Wisconsin ratepayers. The provisions in this bill seem to be among the most stringent protections of the many states that offer EDRs.

- A prospective company must sign an affidavit stating they will establish operations in Wisconsin if they receive a discount.
- An existing customer seeking to expand operations in Wisconsin will need to demonstrate their expansion will increase electric demand more than 5% over what they have previously used, but only if the customer receives the discounted rate. The discount would apply only to the incremental usage over the base amount.
- To retain a business from leaving the state, the applicant must provide a "but for" affidavit that without the EDR, and other local, regional, and state participation, the customer would either leave or close. The struggling company must also show that it will receive $500,000 or more in state and/or local economic development assistance.

AB 145 would provide one more economic development policy to increase our competitiveness as well as have the utilities and their industrial customers as partners in the growth and recovery of our state's manufacturing sector. A healthier customer base will lead to more jobs and less rate pressure on all utility customers. AB 145 would provide real benefits to all Wisconsin ratepayers.

We respectfully ask that you to support AB 145. Thank you and I would be glad to answer any questions you may have at this time.

Citizens Utility Board

May 25, 2011

The Honorable Mark Honadel
Chairman, Assembly Committee on Energy and Utilities
Wisconsin State Capitol
Madison, Wisconsin

RE: Testimony regarding AB 145, relating to electric rates to promote economic development.

Dear Chairman Honadel:

Thank you for this opportunity to testify regarding AB 145, relating to electric rates to promote economic development.

The Citizens Utility Board is a member-supported, nonprofit organization that advocates for reliable and affordable utility service. CUB represents the interests of residential, farm, and small business customers of electric, natural gas, and telecommunication utilities before the Legislature, regulatory agencies, and the courts.

CUB does not support AB 145 because it would undo century-old requirements that utility rates be just, reasonable and non-discriminatory. Under the guise of economic development, large industrial customers could get significant discounts on their electric bills to be paid for by all other customers.

CUB is opposed to this legislation, because these discounted rates will force residential and small business customers to pay higher rates to subsidize industrial customers that receive the discounted rate. This bill would create a tax to be paid for by residents and small businesses, with the tax revenues handed out to large industrial customers and utility shareholders.

Forcing customers to pay higher rates while others receive discounts is inherently unfair, and has been illegal under Wisconsin law for more than 100 years. For example, utilities cannot give discounted rates to one set of customers when other customers receive similar service and do not receive the discount. Wis. Stat. § 196.60, created in 1907. If the Public Service Commission finds that any rate is unjustly discriminatory or preferential, it must determine and order a just and reasonable rate to be used instead. Wis. Stat. § 196.37, also created in 1907.

AB 145 turns a blind eye to these statutes and carves out exemptions for these unjust, unreasonable, and discriminatory rates. See p. 6, lines 3-4 of the bill.

(more)

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Though allowing discriminatory rates for one subset of customers is bad enough, the legislation also allows the utilities to increase their profits at the expense of other customers. Page 6, lines 5-9 of the bill forces the cost of a discount onto the utility's other customers. In fact, the utility will get a windfall if a new customer moves into the utility's territory or an existing customer increases its energy usage because of the discounted rate. These extra funds are pure profit for the utility.

All customers are hurting in this recession. **Why is it fair to raise rates for residents and small businesses so that discounts can be given to others, and utilities can make extra profits?** We urge you to oppose this legislation, which will cause rates to increase for residential and small business customers.

Sincerely,

Charlie Higley

Charlie Higley
Executive Director

Assembly Public Hearing
Committee on Energy and Utilities
Assembly Bill 145 – Economic Development Rates
May 25, 2011

Mr. Chairman, members of the committee, my name is Joel Haubrich and I am here on behalf of We Energies. We Energies is based in Milwaukee and serves more than 1.1 million electric customers in Wisconsin and Michigan's UP and more than 1 million natural gas customers all in Wisconsin.

I want to commend Representative Klenke and the co-sponsors for moving forward with AB 145. The bill will help attract new businesses and jobs to Wisconsin.

We Energies generally supports AB 145. Wisconsin faces competition, both nationally and internationally, to attract new business to the state. However, we do need to raise concerns with at least two of the provisions in the bill and offer some suggested changes.

We do not believe pro-business, pro-growth rates need to utilize cross-subsidization. Cross-subsidization is when one rate class, either residential, commercial or industrial subsidizes another rate class. AB 145 allows for residential and commercial customers to subsidize industrial customer struggling to stay in business.

We also have a concern that the threshold "at-risk" businesses need to achieve may be too easily met and some businesses will request rate reductions at the expense of others. Our rates are competitive with rates throughout the nation, and we do not see businesses leaving Wisconsin simply because the price of power is too high. However, we do agree that lowering any cost for businesses, large or small, can be a tool for economic growth during these difficult times

We do strongly support the "new customer" provision in the bill. New customers are not part of a utility's established revenue requirement; therefore, even if new customers get a short term discount from tariff rates, the incremental revenue from new load will only benefit all other rate classes.

Earlier this year in the Special Session, you passed SSAB3 and made a similar policy decision to offer tax incentives to new Wisconsin businesses. It was good public policy and giving rate discounts to new business can be another tool to attract business to Wisconsin.

We have two suggestions for the bill that will allow it to have an impact in growing Wisconsin's economy. We hope the author will consider amending the bill and add provisions that will help revitalize local economies and minimize the spectre of cross-subsidization.

Currently, the bill focuses on large industrial customers. We would like the expand the bill to provide incentives that would attract small business to Wisconsin by adding a provision that will assist with the State's economic recovery by encouraging investments that will drive business growth and job creation on Wisconsin's Main Streets.

For small and medium size commercial customers who establish a new business in a facility that has been unoccupied, we believe the bill could be amended to provide for a one-year 15% discount from the normal rate applicable to the customer's total electric usage. A new business must represent new electric usage and cannot include moving from one location to another. In addition, the space must have been unoccupied for at least 6 months.

Wisconsin's small businesses are key to the state's economic well-being. They account for 97% of the state's employers and a significant share of the state's economic production and hiring. The 15% discount could really help a new small business succeed.

While the company believes that the economic development tariff should address new customers, we also believe there should be provisions for load growth by *existing* customers but not at other's expense. With this in mind, we recommend that the law include a provision which allows a utility to charge real time prices for growing larger commercial and industrial customers. Growing companies will continue to pay existing rates for a baseline amount of electricity. This concept is in the bill and the baseline represents a customer's pre-expansion usage. For any incremental usage added through growth, the customer will pay a real time price for the incremental electric load. Real-time market prices are currently 40-60% below standard rates, growing customers can achieve substantial savings by paying market rates. Unlike most other rates, the customer accepts risk and reward for market rates. By using real time prices for incremental load from business growth, the utility can provide a very inexpensive option for power without asking other customers to subsidize the lower price.

Utility rates can be an important factor in business attraction. However the best policy is to keep all utility rates as low as possible. Under certain circumstances, a discount of standard rates is justified, so long as that discount is not simply passed along to other customers. When discounts apply to new customers and incremental load only, all other rate classes are protected from subsidizing discounted rates, and eventually will benefit from the incremental revenues.

Thank you for giving me the opportunity to testify today.

Alliant Energy Corporate Services, Inc.

Corporate Headquarters

4902 North Biltmore Lane

Madison, WI 53718

ALLIANT ENERGY: TESTIMONY IN SUPPORT OF AB 145

WISCONSIN ECONOMIC DEVELOPMENT RATES

MAY 25, 2011

Good Morning Chairman Honadel and members of the Assembly Utilities Committee. My name is Scott Smith, Director of Regulatory Affairs for Wisconsin Power & Light (WPL). I am testifying at today's hearing **in support of Assembly Bill 145**, relating to Economic Development Rates. AB 145 will enable utilities to more effectively partner with state and local economic development authorities to **attract, help expand, or retain industrial employers** in the state of Wisconsin. I want to commend Representative Klenke for his thorough and patient work on this issue. What you have before you is a bill that will help strengthen Wisconsin's economy and grow Wisconsin jobs.

When Wisconsin competes with other states for jobs, the fight is not **whether** those jobs will be created, but rather **where** those jobs will be located. The Economic Development Rate will be one tool to help make sure Wisconsin gets the jobs.

As we all know, over the last few years, Wisconsin has seen significant declines in our manufacturing sector. We have had to fight hard to attract and keep our employers. In the WP&L service territory, to mention just two examples, Janesville experienced the loss of the GM plant. The community of Fond du Lac and the State of Wisconsin partnered to retain Mercury Marine when it was considering moving operations to Oklahoma.

Seeing an immediate need and opportunity to help Wisconsin's economy, WPL proposed its own economic development rate to the PSCW during the efforts to retain Mercury Marine. Through these experiences we concluded that utilities lack the legislative tools to respond to economic development needs. We first obtained approval for a temporary-two-year economic development rate from the PSCW. Secondly, we worked hard to improve our economic development services in our communities. And now, we are working with Representative Klenke to make the economic development rate an enduring tool to help gain and retain jobs in Wisconsin.

AB 145 allows utilities to offer a performance-based discounted rate for a period no longer than 5 years. The discount will decline over the offer period until it expires. The Public Service Commission of Wisconsin will have up to 90 days to approve each discount.

The bill treats **new business, expansion, and job retention** in different ways, while recognizing that committing any resources to job retention, in particular, is a serious decision.

Under AB 145, a **new customer** seeking a discount must sign an affidavit indicating the discount is a factor in their decision to establish new operations in Wisconsin and not elsewhere.

An **existing customer seeking to expand** operations in Wisconsin will need to show their expansion will increase electric demand more than 5% over what they have previously used.

When a company is looking for help to stay in Wisconsin, the utility may offer a discount, but only after the company shows it will receive $500,000 or more in state and/or local economic development assistance if it stays. And, the company must submit an affidavit stating the discount is important to their decision to stay. We do not expect the utility discount to be anything but one tool among many to help retain an important employer. It is not a tool that would be used alone, but rather one used in concert with other state and local economic development tools, to retain jobs at risk of leaving the state.

AB 145 has numerous protections for a utility's existing customers. All discount recipients will be required to pay 105 percent of all fuel and other variable costs. This means that, starting in year one, there will be a revenue stream benefiting existing customers.

A customer that expands and receives a discount will not be subsidized for its existing electric use. The discount will go to temporarily reduce the customer's costs created by their **expansion** in the state, not the cost of their existing load.

Finally, when the discount is used for **job retention**, we have determined that a typical discount will help our existing customers avoid the larger negative rate impacts that would occur if the customer left Wisconsin.

The State of Wisconsin will benefit by allowing temporary utility rate reductions for industrial firms. Some of those key benefits are:

- Improving Wisconsin's competitiveness and providing local and state officials with another tool in the intense national and international job creation marketplace.
- Improving long-term economic growth prospects for Wisconsin, with utilities being a useful partner in efforts to bring a rebound in manufacturing jobs.
- A performance-based incentive with statutory certainty and a timely and consistent PSCW decision process to be used in partnership with economic development officials.
- Providing an additional tool that can be used by utilities and communities to better position Wisconsin to compete nationally as well as internationally.
- Provides a tool that does not preclude utilities from developing other effective tools suited to their customers and interests.

Thank you for allowing me to address the Committee and I would be glad to answer any questions you may have.

Allrant Energy

Annual Impact on Residential Customers of Temporary Economic Development Rate Discounts

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Scenario #1 - New Load						
New Load Savings	$ 0.10	$ 0.29	$ 0.48	$ 0.67	$ 0.85	$ 1.04
Scenario #2 - Load Retention						
Expense of Significant Lost Load	$ 1.05	$ 1.05	$ 1.05	$ 1.05	$ 1.05	$ 1.05
ED Temporary Discount Expense	$ 0.95	$ 0.76	$ 0.57	$ 0.38	$ 0.19	$ -
Net ED Temporary Discount Benefit	**$ 0.10**	**$ 0.29**	**$ 0.48**	**$ 0.67**	**$ 0.86**	**$ 1.05**

Scenario #1 looks at new load on the system, from expansion or new customers. Because new revenue is coming in, residential customers benefit beginning year one, and this benefit grows as the EDR shrinks. In year 6, the new customer pays the full rate.

Scenario #2 looks at loss of a large customer and compares the impact on residential customers with the impact of an EDR discount of almost $1.5 million in year 1 used to help retain that customer.

The loss of the large customer affects rates negatively ($1.05) for everyone starting in year one, and continuing out into the future. Though not exhibited here, all customer classes (residential, commercial, and industrial) are affected negatively by the cost shift caused by lost load.

The EDR discount has less effect on customers, and the effect shrinks over the five years the discount is in effect: until in year six the retained company is once again paying its full share.

Losing a large manufacturer has a worse effect on rates; it also brings losses to the community's economic activity, burdens social services, and negatively affects state and local tax revenues while increasing pressures on state and local spending, and on the local tax base in particular.

clean wisconsin

your environmental voice since 1970

May 25, 2011

TO: Members of the Assembly Energy and Utilities Committee

FR: Keith Reopelle, Policy Director for Clean Wisconsin

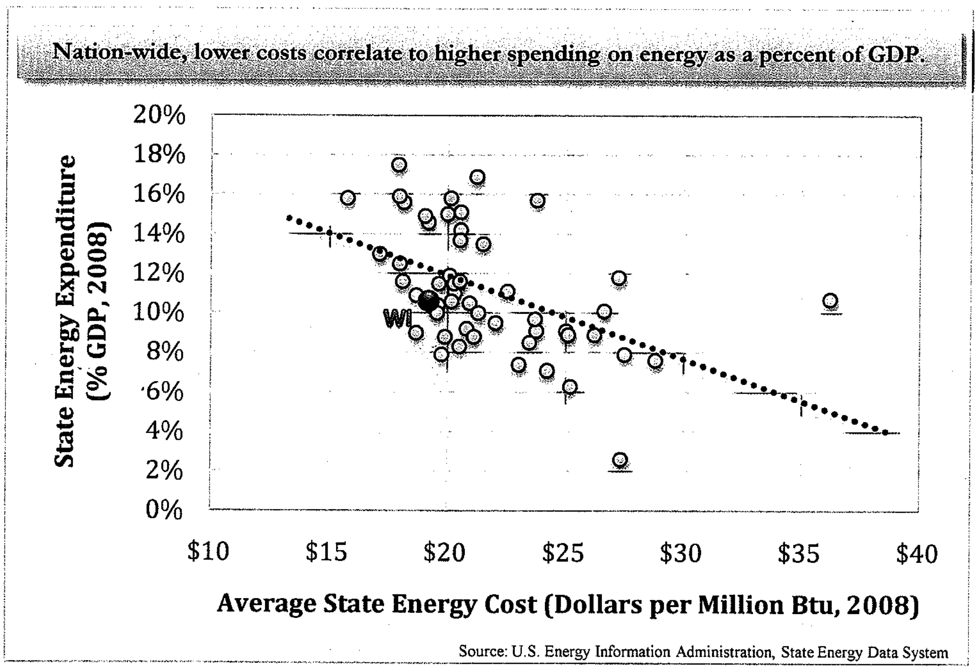
RE: Assembly Bill 145 Economic Development Utility Rates

We urge you to refrain from supporting this bill in its current form. The stated goal of this bill of promoting job growth and economic development is certainly a laudable one, and is one we strongly share. However, this draft inadvertently creates an incentive to use energy less efficiently and fails to guarantee that any additional jobs will be created as a result of the economic development rate. The draft would allow utilities to offer a lower electric rate if the company "....will increase its energy consumption....at least 5 percent over the average of the energy consumed by that customer...over the previous 36 months..." without any connection to economic output or job creation as a result of the increased energy use. This creates a perverse incentive to waste energy. By establishing a policy that encourages less efficient use of energy, the draft also, inadvertently, establishes a policy that increases our dependency on fossil fuels, encourages more pollution including smog, mercury, soot and greenhouse gas emissions, and increases health related costs to businesses and health care consumers.

Wisconsin has adopted numerous policies, such as the energy priorities law, that strive to reduce our reliance on fossil fuels that send our dollars to other states and countries, and increase our investment in fuels grown and harvested by our farmers and our businesses here in Wisconsin. The energy priority laws (SS 1.12), which passed by an overwhelming bipartisan majority, makes energy efficiency the state's number one choice for meeting our energy needs, in part, so that we become less dependent on fossil fuel imports and invest in Wisconsin workers instead. By creating an incentive to use more energy, this draft does the opposite.

It would be much better to tie the lower rate to increased energy intensity (producing more economic output with less or the same amount of energy). We should be encouraging businesses to increase efficiency, so that they can produce more output, and create more jobs while spending less on energy we get from out-of-state fuels. Wisconsin sends about $17 billion a year to other states for fossil fuel imports and this policy would only increase that economic drain on the state.

Lastly, in the long run the policy embodied in this draft is actually likely to increase costs for all ratepayers because using energy less efficiently will increase the need for expensive infrastructure – the opposite effect of conserving energy which saves ALL ratepayers money on their energy bills. The U.S. Energy Information Administration data system statistics show that nationwide lower energy costs correlate positively with higher spending on energy as a percent of GDP. The reason for this is directly related to the policy in this draft, namely, lower efficiency results in higher spending and higher efficiency results in lower spending. This data supports the idea of tying rates to efficiency and energy intensity.



For these reasons, we urge that you not support this bill and we would be happy to discuss this draft and policy idea in more detail with you, your staff, and the bill's author.

TO: Members, Assembly Committee on Energy & Utilities

FROM: Scott Manley, Director of Environmental & Energy Policy

DATE: May 25, 2011

RE: Assembly Bill 145 – Economic Development Rates

Wisconsin Manufacturers & Commerce (WMC) supports passage of Assembly Bill 145 as a vehicle to promote economic development, and retain family-supporting manufacturing jobs. We respectfully request your support for this legislation.

Wisconsin has the second-most manufacturing intensive economy in the United States on a per capita basis. A key sector in our economy, Manufacturing accounts for 20 percent of our economic output, and 94 percent of our exports.

Manufacturing is vital to the economic wellbeing of our state. More than 400,000 workers in the manufacturing sector earn an average wage of $63,132 per year, which is 33 percent higher than the state average. These are family-supporting jobs that serve as the backbone of our economy.

A necessary component of a vibrant manufacturing sector is affordable energy. Energy costs are often one of the top three expenses associated with manufacturing. Affordable energy is an important factor in terms of keeping Wisconsin manufacturers competitive with their counterparts in other states and countries.

Unfortunately, industrial electric rates have increased significantly faster than the rate of inflation over the past decade. Ten years ago, Wisconsin had one of the lowest industrial electric rates in the Midwest. Today, Wisconsin's electric rates are among the highest. These higher costs are making large energy users in the manufacturing sector less competitive.

Assembly Bill 145 attempts to make Wisconsin a more competitive manufacturing state by allowing short-term electric rate incentives for manufacturers under limited circumstances. In addition to it's potential to help attract new manufacturing jobs to our state, the bill could be another tool to help retain our existing base of manufacturing workers.

When a large manufacturer leaves Wisconsin, the electric rate impact of that loss adversely impacts all ratepayers, including residential customers. Assembly Bill 145 is an attempt to provide a short term incentive to keep Wisconsin a competitive place to do business, and thereby avoid the lose-lose situation where jobs are lost, and ratepayers face higher costs. We respectfully urge your support for this legislation, and commend Representative Klenke and Senator Hopper for their leadership as authors.

Incentives deal for utility makes sense to spur sales

A consumer group's lawsuit seeking to block the incentives is off base and should be thrown out.

Milwaukee Journal Sentinel Editorial
July 10, 2010 |(1) Comments

When sales decline at a business, one way to attract new customers or to persuade the old ones to spend just a little more is discounting. Think of the sales racks at Kohl's or Target.

But if those incentives are offered by a regulated monopoly - in this case, an electric utility - the situation is a bit more complicated.

Discounting could even get you sued in Dane County Circuit Court, as Wisconsin Power & Light Co. of Madison has learned.

WP&L received approval from the state Public Service Commission in March to offer electricity discounts to factories in a pilot program to see if lower rates would help spur business expansion in some areas of the state hollowed out by the recession. That includes Janesville, where General Motors Corp. closed an assembly plant, and Port Edwards, where the Domtar Corp. paper mill shut down.

The watchdog group Citizens Utility Board is fighting the program and has named the PSC as a defendant. CUB argues that discounts for factories are unfair and will drive up rates for other customers. The same point was made by PSC commissioner Lauren Azar, who dissented when the commission approved the program 2-1. The suit also claims that the PSC departed from its usual practice by approving the agreement without a formal review of the proposal.

Charlie Higley, CUB's executive director, told the Journal Sentinel's Thomas Content that it was just such incentives that led to utility regulation a century ago.

"These laws were passed not only to protect the consumers who would have to pay those higher rates," Higley said, "but it also protects the commission itself so it doesn't have to try to pick favorites in times of economic distress."

CUB's job is to protect consumers, so we understand its position. But hard times call for hard decisions and creativity. We don't see the PSC's action as "picking favorites."

The discount program is worth a try; lower rates might juice sales of electricity. If the incentives don't work, they should be suspended - and the program should be reviewed after its two-year trial period to see if in fact it did help generate more power sales. We give WP&L credit for thinking innovatively, and we think CUB is overreacting.

As WP&L has pointed out, rates for other customers already were rising because sales to industrial customers have flat-lined. As Content reports, sales to WP&L's industrial customers fell 13% in 2009 from the previous year. That decline contributed to a rate hike for WP&L customers in January. As electricity sales fall off, utilities can seek to recover costs from other customers. The PSC is betting that the incentive plan can shore up sales and take the pressure off other customers.

"In future rate cases, there could be a rate impact that all ratepayers could end up feeling because of this program, but we feel that in the long run adding jobs and more industrial load would benefit everyone," utility spokesman Scott Reigstad told Content.

Reigstad is right. Selling electricity isn't the same as selling shoes, socks and underwear, but incentives for electricity sales in a down economy might just work. They are worth a try.

The PSC should closely monitor the program, but it was wise to approve it. Judge John C. Albert would be equally wise to throw out the CUB challenge.

City may use water to lure businesses
Job-creating firms could get break on water bills
By John Schmid of the Journal Sentinel
Nov. 2, 2009
Milwaukee, which has a lackluster record in luring new industry with tax breaks or subsidies, has a new plan up its sleeve: giving deeply discounted water to new companies that create jobs.

At a time when regions such as metro Atlanta and the Southwest face acute water shortages, the Milwaukee Water Works operates at only a third of its capacity. And it draws off the Great Lakes, which hold a fifth of the world's surface supply of freshwater.

That means the city, which operates the utility, can add new water customers at marginal cost - even if they guzzle prodigious volumes of water.

"This is our comparative advantage," Milwaukee Mayor Tom Barrett said Monday at a conference on the economics of water at Marquette University. "We have to sell on our comparative advantage. We cannot sell our winter weather."

Cities and states routinely use tax incentives, loan guarantees and infrastructure investments to entice companies to relocate operations. Iowa last year offered IBM $52 million in tax incentives to create 1,300 jobs, while Michigan recently gave Johnson Controls $148 million to create 500 jobs for a battery facility.

Some Milwaukee business leaders argue that those states use the same indistinguishable economic toolbox.

"We would be the first city to offer water for jobs," said Richard Meeusen, the chief executive of Badger Meter Inc., a Brown Deer-based maker of water meters.

Water costs rising
Water prices are rising almost everywhere as a scarcity, pollution and demand increase. Water-intensive manufacturers - such as makers of paper, semiconductors, meatpackers, pharmaceuticals and even metal fabricators - are often forced to conserve and ration.

Meeusen said Milwaukee should begin by poaching industries from metro Atlanta, which was regarded as an economic boomtown for the past two decades. Atlanta, which already faces water shortages, will confront even tougher challenges after a federal judge ruled in July that Atlanta must stop drawing water from its Lake Lanier reservoir within three years.

"Their taps are going to run dry in three years," Meeusen told the conference. "We should be running full-page ads in the Atlanta papers, 'Worried " about Water?'

Although the concept of using water as an economic development tool is in its early stages, Barrett said it could be in place as soon as a year from now. The Milwaukee Water Council, a trade group that aims to coax growth out of the region's cluster of water-technology companies, discussed the idea two weeks ago with the state Public Service Commission, the state agency that approves water rates.

And Meeusen, who is credited with hatching the idea, already gave it a name: WAVE districts, for "water attracting valued employers," where new businesses could be offered low-cost or free water in return for job-creating investment.

A spokeswoman for the water works declined to comment when asked whether existing industrial water customers in Milwaukee will balk if newcomers get cheap or free water.

Meeusen anticipates that existing beverage bottlers in the region, who are among the big buyers of water, will complain that incoming bottling operations will get an unfair advantage.

His response: "If we can attract additional businesses, it benefits everybody."

Electric utilities in other states have worked to attract businesses by giving them below-market rates in their service territories, according to PSC spokesman Timothy Le Monds.

Wisconsin, however, never previously considered the question because the state had received no requests for "economic development rates," Le Monds said. Nor has anyone tried to use water rates, he said.

Breaks would phase out

The Public Service Commission has the authority to create WAVE districts without new legislation, Meeusen said.

Like tax breaks, the water discounts would phase out over time, proponents said.

Many business leaders call Wisconsin a "tax hell." But Milwaukee's water rates are so far below the national average that some promote the region as the "Saudi Arabia of freshwater."

In metro Atlanta, high-volume users pay a quarter of a million dollars in an average three-month period; the same user in Milwaukee would pay one sixth that amount - $41,151 - according to data from the Public Service Commission.

The Milwaukee Water Works recently requested a rate increase. Even factoring in higher water rates, the average Milwaukee household pays $200 a year for water - far below the national average of $500, the utility said. The utility, which serves the city and 14 suburbs, operates only at one-third of its capacity and hasn't hit peak usage since the 1960s.

The idea could help revitalize Milwaukee's inner city, Barrett said.

The mayor cited the shuttered Tower Automotive site on the N. 30th St. corridor in Milwaukee's central city, which has sat vacant for several years. Tower, which covers dozens of acres with empty factories, "would be a perfect spot" for a WAVE district, Barrett told the 200 people attending the water conference.

Milwaukee can draw some hope from one instance when "free water" prompted an economic turnaround.

In the dustbowl days of the Great Depression, a pharmacist in the dying town of Wall, S.D., was on the verge of bankruptcy. As a last-ditch effort, the owner posted a sign on the nearby highway that offered "free ice water" to parched motorists heading to the newly opened Mount Rushmore monument 60 miles to the west.

Traffic immediately veered off the highway, and the drugstore boomed into an enduring international tourist destination.

CustomersFirst!
Plugging Wisconsin In

A Coalition to Preserve Wisconsins Reliable and Affordable Electricity

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Customers First! Coalition Position Statement on Economic Development Rates (AB 145)

The *Customers First!* Coalition is a broad-based alliance that includes customer groups, rural electric cooperatives, municipal electric utilities, wholesale energy providers, labor organizations, renewable energy advocates, and an investor-owned utility. We offer the following comments and suggestions on proposed legislation (AB 145) regarding utility economic development rates.

Current Law Allows Economic Development Rates

The *Customers First!* Coalition questions the need for legislation since there is ample statutory authority for the Public Service Commission (PSC) to allow utilities to provide economic incentives to existing and prospective large industrial and commercial customers. Recently, the PSC has exercised this authority and approved the following:

- An economic development rate for qualifying large industrial and commercial customers of Wisconsin Power & Light
- An economic development rate for large water customers of Milwaukee Water Works
- A special contract rate between Wisconsin Electric and Charter Steel
- A special contract rate between Muscoda Utilities and Scot Industries

Economic Development Rates Should Not Harm Ratepayers or the Utility

If the Legislature decides that additional tools are in fact necessary, we believe that providing certain customers a discount on utility rates must not violate the longstanding and fundamental statutory requirements that rates be just and reasonable, and not unjustly discriminatory.

In addition, we would note that most economists predict job creation potential is greatest in the small businesses sector. That is especially true in the state of Wisconsin. We are concerned that a poorly designed economic development rate could shift costs to small businesses and actually reduce economic growth opportunities in that vital sector.

To adhere to these basic principles of fairness and to support economic development across all sectors of the economy, special discounted rates should be structured with sufficient protections to prevent the discount from harming other customers or the utility. The *Customers First!* Coalition offers the following recommendations for the design and application of an economic development rate (EDR) or any legislative proposals in this area.

- Ensure that an EDR does not harm customers not eligible for the rates, or shareholders of the investor-owned utility.
- Limit the time period for an EDR.
- The EDR should be narrowly crafted and focused on recruiting new customers to the state or supporting significant expansions at existing customers.
- Allow an EDR for a customer who demonstrates by sworn affidavit from CEO/senior official that if not for the discounted rate the customer would be unable to establish or expand operations in the utility's service territory.
- Prohibit an EDR from being used to attract a customer from one utility service territory in the state to another.
- Prohibit a customer from using an EDR to increase its load in one utility service territory in the state while decreasing load in another utility service territory in the state.
- Require a customer requesting an EDR to have received, or to have a commitment to receive, a certain minimum amount of state or local government assistance specific to the expansion of load.
- Cap the total amount of EDRs a utility can offer per year.
- Require the utility to demonstrate the system-wide benefits of an EDR.
- Require the Public Service Commission to report on the impacts of EDRs.
- Include a sunset of any specific EDR or any legislative or regulatory policy to allow for a thorough evaluation of the program.

If you have any questions, please contact Matt Bromley, Executive Director, at 608-286-0784, or email mbromley@customersfirst.org